STABILISATION

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STABILIZATION

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PART I.—THE BACKGROUND OF STABILIZATION

1. Difficulties of the Consumer in Wartime

" The customer is always wrong " was the heading of an article in an English weekly review recently. And in *Punch* about the same time was a cartoon of a grocer saying severely to a trembling customer who had dared to argue about some article in short supply : " Supply and demand ? You mean supply and request ! " Both examples illustrate the changed relationship between trader and customer which has come about during the war.

There was a time when the customer was always right, when his custom was eagerly sought by traders, when he could bargain about prices and argue about quality ; and when he could demand what he wanted (provided, of course, he could pay for it). Nowadays his custom is seldom sought, he can seldom bargain about prices, he must usually take what he is offered, and a diffident request replaces his former independent demand to be supplied with his wants.

These changes have not come about because of any lessening in the willingness of shopkeepers and merchants to oblige. They are the effect of the war on our economic structure, for war has created a shortage of all the various kinds of goods produced for civilian use.

2. Supply and Demand

Most people at some time or other have referred to the " law " of supply and demand, meaning, among other things, that when goods are short competition for them will force prices up, and when goods are plentiful the lack of competition for them will induce traders to accept lower prices in order to get rid of them. Shortage strengthens the bargaining position of the producer, manufacturer, and trader ; plenty strengthens the bargaining position of the consumer.

Under normal conditions supply does not stay long out of adjustment with demand. Shortage of goods, with consequent high prices, stimulates production until supply catches up with demand. Surplus of goods, with consequent low prices, tends to create a shrinking of production, or diversion of production to other channels, again until a balance is achieved between supply and demand. Under normal conditions also such surpluses or shortages occur at any one time with only a very small part of the many different kinds of goods being bought and sold.

3. The Shortage of Goods

But war conditions are not normal conditions. They produce shortages of civilian goods on such a scale as to tend to force up all prices. There is a general lack of balance between the supply

of goods and the supply of money, and it is this lack of balance which produces inflation—the ballooning of prices and charges of all kinds, of rents and of wages.

Total war demands that a nation shall strain every nerve to produce the things needed by the fighting forces. Producing more of the things needed for war means producing less of the things needed for civilian use. The first demand on all factories, farms, transport, and communication systems is the military demand. Existing production facilities must be diverted to military production, and if new plant can be obtained the first demand on it also is for military purposes. The inevitable result is a shortage of civilian goods, a shortage which one country cannot readily make good by importing from another country because in this war all countries are facing similar military demands. Also military claims on shipping make it difficult to move civilian goods from one part of the world to another, even if they are available.

4. Increase in the Supply of Money

That is the goods side of the question. But at the same time the balance between the supply of goods and the supply of money is further upset on the money side. The concentration of a nation's industrial effort on production for total war involves an extension of employment and of working-hours, much of it as overtime at higher rates of pay. Consequently a direct result of war is to place more money in the pockets of most of the people.

But as production for civilian purposes has dwindled there are fewer goods on which to spend the money. There are £5 (or £7 or £10, or whatever it may be) bidding for every £4 worth of goods. It is like an auction sale at which everybody has plenty of money and everybody wants the same article or the same few articles. If the competition for the few goods available in wartime is allowed to go unchecked, then the bidding at the universal auction will force prices higher and higher.

The bidding is not only for goods, but for labour. As men are withdrawn for the Forces labour becomes short. Each employer seeks to hold his remaining labour and to attract new labour to fill any gaps. And the obvious way to do this is to offer higher wages. So wages also tend to rise. But wages are the most important part of the cost of almost everything we buy. Prices which have already begun to rise under the stimulus of shortage are forced higher again by increased labour costs. These price increases in turn react on wages, for higher prices produce a demand for higher wages to offset the climbing cost of living. So the spiral climbs and climbs, with wages and prices chasing each other higher and higher, but with wages usually lagging behind.

To these are added other factors, based on the competition created by shortage, on the increased costs created by war or by the risks of

war, or on all of these together. Such are increases in shipping freights and other transport charges, insurance, rents, and so on.

5. The Danger of Inflation

Shortage of goods, surplus of money ; rising prices, higher wages, higher costs—from the interplay of these things comes inflation which, if allowed to develop into a runaway, will dislocate the whole economic structure. The best remedy for such an inflationary condition is to flood the market with civilian goods, until the balance between the supply of goods and the supply of money is restored. But so long as the main energies of every country are directed to the prosecution of war no nation can adopt this remedy. It can be adopted only in the conditions of peace. Consequently the only course open is to hold the inflationary tendency in check, to achieve the best possible degree of stability by preventing undue increases in the price of goods and services and in wages. The machinery adopted for this purpose is known as stabilization.

Stabilization programmes form an essential part of the wartime economic structure not only of New Zealand, but of the United Kingdom, Canada, Australia, and the United States. Common to all these stabilization programmes are price-control, wage-control, rent-control, and rationing of essential goods in short supply.

6. Price-control and Stabilization

Price-control is at the same time an end and only a beginning in a stabilization programme. It is an end because one of the main purposes of stabilization must be to prevent prices of daily necessities from rising unduly. It is only a first step in the sense that although the first stabilization measures adopted usually take the form of regulations to restrict increases in the prices of everyday foods, effective control of prices can be achieved only together with controls in other spheres, particularly of wages and of rents, transport and power charges. If wages were not controlled and were allowed to rise indiscriminately under the pressure of wartime industrial demands, production-costs would increase so quickly and so much as to make any price-control system unworkable. Just as the price of labour enters into all costs, so also do rents, transport, and power charges. So the controls must go beyond limitation of prices of goods to limitation of wages, rents and these other charges.

7. Loans and Taxation

These measures deal with the problem created by the lack of balance between the supply of goods and the supply of money. They cannot completely resolve the problem or completely restore the balance, but they can prevent such exploitation of the inflationary tendency as would throw the economic system still further out of

gear. Restoration of the balance could be helped (as has already been mentioned) by an increase in the supply of goods, but a sufficient increase in the supply of goods is impossible in wartime. Restoration could also be helped by a reduction in the supply of money. That is not entirely impossible, even in war. Some of the surplus money—what the Americans call "dangerous dollars"—is drawn off in taxation to pay for the war, more of it is absorbed in war loans. The money absorbed in loans will certainly be released later when the loans are repaid, but by that time there are likely to be more goods to spend it on, so that its inflationary effect will be lessened.

PART II.—STABILIZATION IN NEW ZEALAND

1. The Effects of War

What would happen to New Zealand's economy under wartime conditions could, to a considerable extent, be foreseen at the outbreak of war. The capacity of Britain and other countries to supply goods normally imported from them would be diminished. Goods formerly imported from enemy countries and from some Continental neutrals would be unobtainable. Other countries besides New Zealand would be trying to obtain supplies from whatever sources remained. Shipping space to carry to New Zealand the goods available would be restricted by the pressure of military demands and by the effects of enemy action. New Zealand's capacity to make good part of the deficiency by expanding her own manufacturing capacity would be limited by military demands on her factories, by man-power problems, and by difficulties of obtaining raw materials and new plant from overseas. All these factors indicated that shortages of many goods were likely to develop. And shortages would tend to force up prices. Because the course of the war itself was unpredictable, what could not be foreseen was the intensity of the problems that would be created.

2. First Steps in Control

The first step towards stabilization in New Zealand came at the outbreak of war. Prices for all types of goods and services were immediately "frozen" at the levels then ruling. This was a first step only, for inevitably the cost of everything bought overseas began to rise, as did transport and insurance costs involved in getting the goods to New Zealand, and also some internal costs. So the Price Tribunal (established early in 1939 as the Price Investigation Tribunal) was authorized to permit such increases in prices as were necessary to meet these increased costs. But the increase in the New Zealand price could be no more than the increase in the landed

or other costs, and even these increases could be allowed only where the traders concerned were unable to absorb the increase themselves, by economies, increased efficiency, or reorganization, or other means. No increase was legal unless it was previously authorized by the Tribunal.

Stability of prices for meat and dairy-produce was assisted from the outset by an export agreement with the United Kingdom, which undertook to purchase the whole of the exportable produce of the Dominion. Prices of bread, flour, sugar, and coal were held stable with the assistance of subsidies. Prices of fertilizers were also kept down at the cost of a very considerable subsidy.

3. The Economic Stabilization Conference

In September, 1940, a conference (the Economic Stabilization Conference), representing every main interest in the economic life of New Zealand, set out the basis of the subsequent development of New Zealand's stabilization policy. The conference recommended that the prices of more of the daily necessaries of life should be stabilized. It also urged that transport costs, rents, wages, and other factors entering into the costs of production and distribution should be prevented from increasing. The conference was particularly concerned that the burdens of the war should not press more heavily on one section of the people than another. One result of these recommendations was the stabilization in September, 1941, of the prices and charges for thirty-eight essential commodities and services. These were mainly food, clothing, and footwear made in New Zealand from New Zealand materials, and public-utility services. Stabilization of these prices meant that no increases could be permitted by the Tribunal.

Over the whole field of prices, however, some increases were inevitable, and these were reflected in the cost of living as indicated by the Retail Prices Index. From the outbreak of war up to the end of December, 1942, the increase shown in this Index was 13·7 per cent. This increase was offset by two increases in wages, effected by general orders of the Court of Arbitration in August, 1940, and April, 1942.

4. Full Programme Launched

On 15th December, 1942, New Zealand's full stabilization programme was put into effect. The Economic Stabilization Commission was established to advise the Government on stabilization problems. The Commission consisted originally of six members, subsequently reduced to three when the formative period was over and the work of stabilization became more administrative. The three members are the Secretary to the Treasury, a representative of the employers, and a representative of the workers.

The practical measures through which the stabilization plan aims at achieving its anti-inflationary purpose include preventing increases in the following :—

(1) Prices of a wide range of goods and services essential to a reasonable wartime standard of living :
(2) Farm costs and prices :
(3) Wage rates, salaries, and fees :
(4) Transport operators' costs and charges :
(5) Rents.

5. The Wartime Prices Index

Stabilization of the prices of essential goods and services, and of all wages and salaries, is linked with the new Wartime Prices Index established under the stabilization regulations.

The Index compresses into a single figure an indication of changes in the prices of 239 goods and services really needed by the average family and available to it in time of war. It includes a group of 52 essential foodstuffs, a group of 104 items of utility clothing and footwear, a rent group, a fuel and light group, and a miscellaneous group of 78 items. The Index indicates changes in the cost of living by comparing the cost of a basic but adequate household budget each quarter with the cost of the same budget in December, 1942. What it says is : " Suppose you had to pay 1,000 units of money for the budget in December, 1942, here is what you had to pay, proportionately, for the same budget on the 15th of the month named.

	1943.	1944.
March	1011	1005
June	1000	1001
September	996	...
December	1001	..

The new Index was established because the former Retail Prices Index had ceased to be a reliable indicator of changes in the cost of living in wartime. All that any index can do is to take a fair sample of the really essential things people spend their money on and give these things their proper place and proportion in summing up the general position. Since the old Index was established the buying habits of the people had changed. Some items in the old Index—like candles and kerosene, which used to be important in the family budget, were no longer important. Other things which were formerly unimportant—like electricity—had become essential, and other things were no longer obtainable or were obtainable in reduced quantities because of the war.

6. What the Index Measures

The framers of the Wartime Prices Index made due allowance for such changes. The Index allows, for example, for the swing

from meat to vegetables and the increased consumption of fresh fruit. Most price indexes do not include vegetables apart from potatoes and onions. The Wartime Prices Index includes them, but also makes allowance for fresh vegetables and fruit, the ones included being carrots, parsnips, swedes, cabbages, apples, and lemons. These have been selected because they are generally available throughout the year. Sometimes doubts are expressed about the Index figures. People forget that it measures changes that have occured since December, 1942, and not since the outbreak of war. Or they point to individual price increases much greater than those shown by the Index. But the examples given usually concern commodities which account for only a very small percentage of *total* expenditure, and it is total household expenditure on the items covered that is the concern of the Index. A very large part of this expenditure is on everyday items like meat, bread, flour, and dairy-produce, the prices of which have been stable throughout the war. It follows that fluctuations in the prices of less-frequently occurring items in the family budget would have a very much reduced effect on the Index figure, just as they have only a small effect on our total spending.

The Government has stabilized the price of every item included in the Index. No luxury or non-essential commodity is included. For most stabilized items (and a few non-stabilized ones) control of prices is achieved by Price Orders, which are regulations issued by the Price Tribunal.

Price Orders define ceiling prices which cannot legally be exceeded. It is legal to charge any price below the ceiling. Some Price Orders, particularly for vegetables, define conditions under which it is compulsory to charge prices below the named ceiling. Where the wholesale price is below the wholesale ceiling, the retail price must be proportionately below the named retail ceiling. Prices of non-stabilized goods are controlled under the procedure by which the only price increases permitted are those which have been authorized by the Tribunal as necessary to offset proved increases in costs.

PART III.—SOME SPECIAL PROBLEMS

1. Farmers under Stabilization

Farmers' costs and the prices paid to them for their produce are governed by the stabilization policy. An important factor here, as mentioned earlier, is the export agreement with the United Kingdom Government, which at the outbreak of war undertook to purchase the whole of the exportable produce of the Dominion. An agreement with the Farmers' Federation in 1943 provides for the establishment of Farm Products Stabilization Accounts and for the payment

into the account for any product of any increases in the price received from sales overseas of that product. The agreement also provides that if any increase is paid from overseas for a general national purpose (such as to maintain the Dominion's sterling balances, or to offset general import price increases, or Government expenditure in holding costs) then the balance (after recouping subsidies) will be paid as the Government determines. In August, 1944, a further agreement with the United Kingdom was announced. To cover the disparity between export and import prices since 1939 the United Kingdom Government has agreed to pay a lump sum of £12,000,000 sterling with further lump sum payments of £4,000,000 a year for four years. In addition, the United Kingdom Government has agreed to pay increased prices for butter, cheese, and meat bought from New Zealand.

Some items of farmers' costs have been held stable since early in the war, others since the stabilization date (December 15, 1942) and still others have been compensated for by special price adjustments such as the dairy industry cost adjustment of 1943 and the dairy industry wage cost allowance of 1944. Major farm-cost items whose prices have been held under stabilization include such things as manures, spare parts for agricultural and dairy machinery, baling and fencing wire, binder twine, stock foods, cow-covers, rock salt, dairy-factory requisites, poultry foods, woolpacks, sheep-dip, and a number of commodities required by fruitgrowers.

2. Use of Subsidies

Holding of prices and of farm costs under stabilization has not been possible without some use of subsidies. A recent official estimate put the total paid out in subsidies for this purpose since the beginning of the war at more than £25,000,000. By far the larger proportion of this sum is accounted for by subsidies to help the costs of primary producers, or allowances to offset these costs. Other subsidies have given substantial assistance to consumers, to industrial producers, and to transport services (sea freights).

Subsidies to the farmer have included assistance to those who have lost their pre-war market (particularly orchardists), payments to hold the major farm costs (fertilizers and other items on the stabilized list), and dairy-farming cost allowances to offset other farm and dairy-factory cost increases between the 1938–39 season and the stabilization date, and also incentive payments to increase production (wheat).

The main items covered by consumer subsidies are flour and bread, sugar, oatmeal, and some items of men's clothing and hats. In the industrial producers group the main subsidy item is for coal.

3. Wages and Stabilization

The inter-dependence of wage and price stabilization is one of the main features of stabilization in New Zealand. Before stabiliza-

tion two general increases in wages were ordered by the Court of Arbitration to offset wartime increases in the cost of living. In August, 1940, when the Government Statistician's Retail Prices Index showed an increase of 4·7 per cent. over the level of August, 1939, the Court ordered an increase of 5 per cent. in wages. Eighteen months later, in April, 1942, the Court ordered a further increase of 5 per cent. on the first £5 a week for men, the first £2 10s. for women, and the first £1 10s. for juniors. At this time the Retail Prices Index showed an increase of 8·9 per cent. above the level of August, 1939.

4. The Essentials of Wage Regulation

Broadly, the purport of the wages clauses of the Stabilization Regulations is that for any particular job the rate of remuneration shall not be more than was paid on December 15, 1942. The term "remuneration" covers time and piece wages, bonuses and other special payments, allowances, fees, commissions, and any emoluments whether in money or not, and director's fees and travelling expenses. It is important to note two things about wage stabilization :—

(1) The wage ceiling applies to the position and not to the person :

(2) It is the rate of wages that is stabilized and not the total earnings—that is, the hourly rate of wages may remain unaltered, but if a worker is working longer hours or more overtime, he may receive higher gross wages than in December, 1942.

Payment of a higher rate of remuneration than at the stabilization date is permitted only to compensate for additional work or risk to life or health, to allow for routine promotions under an approved classification scheme, to remove anomalies, to allow the wages to be brought up to the minimum of £5 5s. per week for males and £3 for females, or to adjust cases where an abnormally low wage-rate was paid on the stabilization date.

Wages are tied to the Wartime Prices Index in this way. If the Index records an upward increase of 2½ per cent. or more, the Arbitration Court will issue a general order increasing wages. No further increase will be made unless a further upward movement of 5 per cent. is shown. Before a general order reducing wages is made a fall of 5 per cent. must be recorded by the Index.

5. Transport and Rents

Holding costs wherever they enter into the prices of essential goods has involved not only stabilization of wages, but control of transport charges (and transport operators' costs) and rents. The Stabilization Regulations provide that without specific authority rents—whether of houses, flats, farms, offices, or factories—may

not be increased above the levels of September, 1942. They also extend to all tenants the right to ask the Courts to determine a fair rent for the premises they occupy.

6. Taxation and War Loans

The main purpose of taxation in wartime is to pay for the war. At the same time stabilization's aim of preventing inflation has been assisted in New Zealand, as elsewhere, to the extent that war taxation has absorbed surplus buying-power. A similar relief, additional to their main purpose of helping to pay for the war, has been provided by the various Liberty Loans and by National Savings. In loans and savings the people of New Zealand have invested just on £140,000,000 during five years of war. This total will be brought up to £180,000,000 on completion of the present £40,000,000 Victory Loan.

7. When the War ends

Ending the war in Europe or the Pacific will not immediately abolish the menace of runaway inflation. Inflationary tendencies will continue and must be actively fought until supply of civilian goods of all kinds catches up with needs. When the fighting stops the present trickle of civilian goods will begin to swell, but considerable, costly, and timetaking reorganization and reconstruction of industry and transport facilities will be necessary before that trickle again becomes a full stream. Many of the shortages which now trouble New-Zealanders arise from the dependence of this country on overseas sources—particularly on Britain—for supplies of raw materials and manufactured goods. In the immediate post-war period countries like Britain, in which houses and factories have been shattered by enemy bombs, and whose people have been deprived of civilian goods and diverted from peacetime occupations to an extent far exceeding anything we have known in New Zealand, will have a priority claim on the goods available. The first slight increases in civilian production will also to some extent be offset by an increase in demand all over the world as men now in the Forces return to civil life. On top of this, in the first flush of excitement at the end of the war people generally will be inclined to abandon the restraint they have been observing in their buying. This change of attitude will intensify inflationary tendencies already existing, and, if allowed to operate in the absence of any checks, would frustrate one of the main purposes of stabilization. It has to be remembered that stabilization aims not merely to protect the people while the war

is on, but to ensure that in the period when the men now in the Forces are being rehabilitated, their task of readjustment shall not be complicated by disorganization of the country's economy and ballooning of prices consequent on runaway inflation.

PART IV.—WHO BENEFITS FROM STABILIZATION?

When the full Australian Stabilization Programme was being introduced last year Professor D. B. Copland, Commonwealth Prices Commissioner, was asked who benefited from stabilization. Here is his reply :—

"Everybody benefits, because price stabilization is a more intelligent plan of meeting war costs. In particular, each producing group will benefit. The businessman will know what his costs are, what they will be, and what his prices are and what they will be. The farmer will be on a firm foundation as to his costs and prices. The distributor, wholesaler, and retailer will not be compelled to make frequent changes in their buying and selling prices. The wage-earner will know that his income will continue to be of the same value in terms of goods and services. Borrowing and lending transactions will be on a firm foundation, and the pensioner or the person in receipt of a modest fixed income from investments will know that his income will continue to buy the same quantity of goods and services. Insurance companies, savings banks, friendly societies—in fact, all the institutions through which people build up a stake in the country—will be able to operate without the fear of inflation. Finally, the great body of consumers will know what the maximum prices for their commodities and services should be, and they will not be subject to the constant irritation of changing prices and of the suspicion that petty traders are chiselling them."

PART V.—WARTIME PRICE CONTROL AND POST-WAR REHABILITATION

When the full Australian Stabilization Programme was being introduced last year Professor D. B. Copland, Commonwealth Prices Commissioner, was asked whether price control during the war would help the solution of post war problems. Here is his reply :—

" Prices in the last war rose rapidly towards the end of the war, and for two years afterwards, and then fell suddenly. This was the experience of all other countries, and it has been the experience in nearly all wars. A period of inflation marks the closing stages of a war and continues for a short period into peace. This is followed by a sudden collapse of the price level, a destruction of all values, contraction of credit, unemployment, and social distress. This is no atmosphere in which to rehabilitate the hundreds of thousands of young men and women in the Armed Forces and munitions industries, and to establish better working and social conditions in the world after the war. The introduction of the price ceiling will remove this difficulty after this war. Prices will not reach fantastic heights under the ceiling plan, and they will not have to be heavily reduced. The ceiling plan is thus a great contribution not only to the efficiency of the economic system during the war, but also to its capacity to stand the strain of repatriation and reconstruction after the war."

Stabilization Controls and what they do.

Here is a summary of stabilization controls and their function, as set out in a recent Canadian Government publication :—

Price control.—Protects the consumer by putting a ceiling on the prices of goods, rents, and services.

Wage and salary control.—Prevents wage and salary costs from exerting an irresistible upward pressure on the cost of living, while providing for wage adjustments to meet cases of hardship.

Distribution controls.—Allocate materials and supplies to war and civilian industry on an efficient and equitable basis, and ensure a fair share of goods to the consumer.

Wartime taxation.—Provides funds for carrying on the war in the fairest manner possible, and prevents excess spending from bidding up prices.

Government loans.—Provide necessary additional funds for war while simultaneously reducing excess current purchasing-power and providing extra financial resources for the individual and the economy as a whole in the post-war period.

These measures working together constitute Canada's economic strategy in wartime. The whole-hearted support of them by every Canadian is required to prevent the chaos and hardship of inflation, to promote an organized and maximum war effort now, and to build sound foundations for the post-war period.

TOPICS FOR DISCUSSION

1. Discuss supply and demand and their effect on prices in conditions of (*a*) plenty and (*b*) shortage.

2. Price control helps the consumer in wartime. Does the consumer need similar assistance in peace?

3. Recent publicity for stabilization in the United States used the slogan "Don't Buy Another Depression." Why should successful stabilization be of assistance in preventing a post-war depression?

4. Consider whether the trader receives any benefits under stabilization in wartime.

5. If prices are controlled, should wages be stabilized? During discussion it would be useful to consider at how many points between raw material and consumer wage costs enter into the New Zealand retail price of—

(*a*) A leg of mutton.

(*b*) A table.

(*c*) Imported crockery.

6. To what extent would post-war re-adjustment in New Zealand be affected by an abnormally high wartime level of primary-produce prices?

7. When costs rise, payment of a subsidy may be the only effective way of keeping down the retail price of a necessary everyday commodity. Which is likely to cost the community less—to pay the subsidy to the man who produces or makes or imports the goods, or to pay it to the man who finally sells them to the public? Discuss the effect of subsidies generally, and summarize the arguments for and against their use as machinery for controlling prices.

8. Are individual price increases reliable indicators of what is happening to the cost of living? It would be useful to work out and discuss a few examples like the following:—

(*a*) Suppose a man on £6 a week buys one suit a year, and it now costs him £13 compared with £8 before the war. What percentage increase in his cost of living is this?

(*b*) If clothes-pegs used to cost 3d. per dozen and now cost 6d. per dozen, what percentage increase is this on a budget of £6 per week? (You will probably buy a dozen clothes pegs in three months.)

9. What factors limit the field over which prices may be effectively stabilized in New Zealand?

10. In the Wartime Prices Index, based on a survey of family budgets, 39 per cent. of total expenditure is allocated to food, 25 per cent. to rent and 7 per cent. to fuel and light. The 39 per cent. for food is broken up as follows: Groceries, 13; dairy-produce, 10; meat, 10; fresh fruit, 3; fresh vegetables, 3 per cent. To what extent would those percentages have been different twenty years ago or fifty years ago? Does the experience of the discussion group suggest that any of these items or groups are coming to assume an unbalanced proportion of the whole?

11. If the war ended to-morrow and all stabilization controls were lifted immediately, would prices go down or up? Why?

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These bulletins are not official statements. They are compiled from published sources and intended to provide the starting point for group discussions.

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